

***The City of Lynchburg  
Department of Financial Services  
Review of Investment Program***

***February 28, 2006***



***Prepared by the Department of Internal Audit***

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Review of Investment Program  
February 28, 2006**

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***Introduction***

The Financial Accounting Division (Division) of Financial Services seeks to provide financial management, information and business products to Council, Departments, Agencies, Investors and Citizens so they can have confidence in City Government, make informed decisions and achieve community goals. This Division reports to the Office of the Director, and is responsible for timely and accurate recording and reporting of financial results to the City, government agencies, as well as to the general public. The Division also ensures that accounting transactions are in conformity with Generally Accepted Accounting Principles (GAAP); evaluates municipal accounting issues; determines if disbursements legally comply with budget ordinances; and develops pertinent data for the preparation of the Comprehensive Annual Financial Report (CAFR).

One of the functions of the Division is to invest excess City funds in an effort to maximize existing resources, providing stakeholders with true cost data to make informed, meaningful decisions with accuracy and integrity. This data is to be provided in a clear and reliable format.

Policy IV, Investment Policy, of the Financial Management Policies issued by the Office of the Director of Financial Services, provides guidance to be used for investments purchased and held by the City. The Investment Committee, consisting of the City Manager, Deputy City Manager, and Director of Financial Services, provides broad policy oversight regarding investments, while changes to the Investment Policy must be reaffirmed by City Council.

The Investment Policy states that “the Internal Audit Department shall add this Policy and related Procedures to their Audit Universe for audit consideration”. As a result, this review was performed as a regularly scheduled review with the approval of the Audit Committee. We began our review in April 2005. However, due to delays in receiving the requested information, we were unable to complete our testing until August 2005.

***Review Objectives***

The purpose of the review was to:

- Determine if procedures, practices and controls regarding investments are adequate;
- Ensure that transactions are properly authorized and recorded;
- Ensure that securities, as recorded, are in the possession of custodians for the City;
- Determine that subsidiary records are reconciled on a regular basis and are in agreement with G/L control accounts; and

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- Determine that G/L entries to record gains and losses and earned income are accurate.

***Scope of Work***

The review covered the period of October 1, 2004 through April 15, 2005 and included reviews of the City's Investment Policy and Financial Services procedures, the listing of pre-approved security brokers/dealers, Records of Offers Received from bid offerings, Records of Securities Purchased and wire transfer confirmations. Employees were also interviewed to understand current procedures and practices. We attempted to test monthly reconciliations of investment statements to G/L balances. We attempted to compare listings of investments held in safekeeping to City records; daily investment forms, wire transfers and bank confirmations for overnight investments were included in the review and a sample of all security transactions for the audit period were tested.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

***Opinion On Internal Controls***

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded.

It is our opinion that controls over approval and documentation of investment purchases, and timeliness of reconciliation, review and recording of investment transactions in Financial Services need to be strengthened to ensure proper safeguarding from loss or misuse.

***Review Conclusions***

Based on the results of our review, we conclude that:

- Procedures, practices and controls regarding investments need to be improved;
- Transactions to purchase investments which were tested do not show evidence of proper authorization and are not always recorded timely;

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- Securities, as recorded, are in the possession of custodians for the City;
- Subsidiary records are not always reconciled in a timely manner, and as a result, they are not always in agreement with G/L control accounts;
- General ledger entries to record gains and losses and earned income are not always posted in a timely manner, although the account balances appear to be accurate as of fiscal year end, June 30, 2005.

***Observations and Suggestions***

**I. Non-Compliance with the Investment Policy**

During our review, we noted the following areas that appear to be in non-compliance with the Investment Policy:

- A. At the onset of our review, the contract provided to us for the consulting services of Davenport & Co. was expired. At that time, the most recent contract had been signed in July of 2001, covering the period July 2001 through June 30, 2002 with a renewal option for one year. However, this firm was paid \$30,000 for services rendered in 2004 and is still currently providing investment consulting services.

Without a current contract in place, the consultants cannot be held responsible for inaccurate or bad advice regarding the City's investments. Failure to obtain legal, binding agreements puts the City at risk in the event of vendor negligence or unsatisfactory performance

During our review, we discussed the lack of a current contract with Finance Department personnel. We were told that there was an addendum that continued the contract indefinitely; however, this was not available for our review. To rectify this situation, on May 31, 2005, the City Manager signed a revised agreement stating the City's agreement with Davenport was to continue until terminated in writing by either party.

- B. Section, VI, "Ethics and Conflicts of Interest," of the Investment Policy requires that "Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business and any personal investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City." The disclosure of material interests required by the Investment Policy has not been provided by those employees and officers involved in the investment process. Without disclosure by involved employees and officials, a conflict may exist that could adversely affect the City's financial position

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and credibility. Additionally, the term “officer” and “official” has not been defined in the Investment Policy. Therefore, we are unsure of the intention of this statement.

- C. Written procedures for the investment process have not been developed as indicated in Section IV, “Delegation of Authority,” of the Investment Policy. This section states that “The Director of Financial Services is also charged with developing written standard procedures and an asset allocation plan consistent with this policy. Such procedures shall be reviewed and approved by the Investment Committee.”

*Suggestions:*

*We suggest that contracts representing ongoing relationships with City vendors be monitored to ensure that renewals or re-negotiations are timely. Additionally, we suggest that copies of all pertinent agreements and addendums be maintained along with the original signed contract.*

*We suggest that measures be taken to require employees and officers working in the investment process to complete the required disclosures mentioned in the Investment Policy. Additionally, we suggest the term “officer” and “official” be defined in the Investment Policy. In the event these terms are found to represent citywide officials, such as Council members, disclosures should be obtained from these individuals as well.*

*We suggest that investment procedures be written as required in the Investment Policy. We further suggest that key staff roles and responsibilities be defined within the procedures. Considerations regarding the internal control structure, such as, separation of transaction authority from accounting and record keeping and clear delegation of authority to subordinate staff members, should be identified and addressed before formulating the procedures.*

**Management Response:**

A. Agree: The original one year contract provided for a one year renewal, but was silent on a continuing relationship. Further, the investment advisor stated their understanding of the contractual relationship as being continuous unless terminated by either party. This understanding of the intent of the contract was clarified in writing in a May 9, 2005 letter, which became a contract addendum with the City Manager’s authorization on May 31, 2005.

The City now has established a City-wide database of contracts and addendums that provides timely renewal notification. This contract is included in this database. Contract files are maintained in the Finance Department records.

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Finance Department staff is not aware of an addendum to the contract other than the May 31, 2005 document noted above.

B. Agree: A complete review of the investment policy will be undertaken to clarify areas of ambiguity. This review will include consultation with the City's investment advisor. The City Attorney will be consulted on the level of disclosure necessary to satisfy state and local conflict of interest laws. City employees sign a document indicating receipt of an Employee Handbook which includes the City's conflict of interest policy. This review should be completed by June 30, 2006 and included with the reaffirmation of financial policies during FY 2007.

*Auditor's Comments: While the Employee Handbook contains "conflict of interest" language, it does not address the disclosure of material interests as required by the current investment policy. We recommend that this area be considered during future revisions of the investment policy.*

C. Agree in part: There is a need for compilation of comprehensive set written procedures for the investment program. However, there are written procedures for weekly investment activities along with a written process summary describing the function and identifying employees' roles and responsibilities. This summary information was provided to the external auditor in August 2004 and updated during the course of the FY 2005 annual audit. There were neither exceptions noted nor any management comments from those external audits. During this review, the procedures and summary information was provided to the Office Internal Audit. In conjunction with the overall review of the Investment Policy, the existing written procedures will be revised into one document by June 30, 2006.

Regarding existing internal controls in place since the inception of the investment program, please refer to Section II F of this Report for details.

*Auditor's Comments: Although these summary documents were prepared for the internal and external auditors upon request, they are not in compliance with the investment policy which requires the Director of Financial Services to develop standard investment procedures which are to be reviewed and approved by the investment committee.*

## II. Incomplete /Inconsistent Documentation

During our review, we noted the primary employee involved in the investment process, the General Ledger/Cash Accountant, is involved with many aspects of the Finance Department, including monitoring and maintaining the cash balance, among other duties. Additionally, due to fiscal year end processing, preparation for the external audit, and turnover within the department, time constraints have

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caused some desired steps to be eliminated in the investment process. As a result, the following areas were found where instances of inconsistent or incomplete documentation have occurred:

- A. A subsidiary listing of investments owned by the City is not regularly maintained. Therefore, we were unable to independently reconcile investments held to those indicated by the safekeeping institution (State Street). Sound practices indicate that listings from both sources should be compared to ensure accuracy and completeness.
- B. Reconciliations for investment accounts are not always prepared and reviewed in a timely manner. Reconciliations for March and April 2005, while prepared timely, were not reviewed until August 10, 2005. The May and June 2005 reconciliations were not prepared and reviewed until after August 10, 2005. As a result, adjusting entries to record gains/losses and investment income for these periods were not recorded in a timely manner. Lack of timely reconciliation, review and recording of activity in this area may allow the misstatement of financial records to go undetected for long periods of time.

Additionally, as of August 23, 2005, while reviewing activity for FYE 2006, we noted that some recent investment activity remained unrecorded.

- C. The desired practice of investing weekly in higher yielding debt securities did not occur during five months of the six month review period. Due to time constraints, the General Ledger/Cash Accountant has indicated she was unable to research the availability of suitable investments, or the necessary City employees required for approval may not have been available to complete the investment process. This deviation from the desired practice has reduced the City's ability to maximize investment income by forcing investment dollars to remain in lower yielding accounts.
- D. To initiate the process to purchase an investment, the General Ledger/Cash Accountant completes a "Request for Offers" form and faxes it to the approved securities companies to request available offerings. Once offers have been received, a "Record of Offers Received" form is to be completed. The "Record of Offers Received" form is designed to list all offers received, the instruments chosen for purchase and the rationale for making the selection decision. The Investment Policy requires that this information be retained in a permanent file. Additionally, the Investment Policy requires the existence of segregation of transaction authority from accounting and recordkeeping.

During our review of five purchases out of 26 (19.3%) occurring during the review period, we noted:



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1. One file contained no "Record of Offers Received" form.
  2. Four files contained a "Record of Offers Received" form; however,:
    - i. There were no signatures of approval required to purchase the investment noted on the form. One file did contain the handwriting of another individual in the "Winning Offer" section.
    - ii. In two files, the "Winning Offer" section was not completed at all.
    - iii. In one file, the "Winning Offer" section was completed by the same employee who obtained the solicitations and did not indicate approval for the purchase.
- E. For two of the five investments reviewed, the working file for these purchases contained "trade tickets" for a different investment. Trade tickets are usually Issued by the securities company once an investment is purchased. After research, we were told that early in the City's new investment program, which began approximately one year ago, some brokerage firms provided trade tickets rather than general information print-outs. These print-outs are used to evaluate each investment prior to purchase. As a result, these brokerage firms were instructed to provide only the required information when presenting an offering for purchase.
- F. There appears to be insufficient segregation of duties regarding solicitation of offers, placing the purchase and sell orders, confirming trades, record keeping duties, preparation of journal entries and the reconciliation of investment transactions. The same employee who performs these functions also handles the City's cash accounts, determines the amounts available for investment and assists in deciding which investment to purchase. Only one other employee is involved in the investment process.

Reasonable internal controls require that persons who authorize or perform transactions should be separate from those people who record and reconcile the transactions.

*Suggestions:*

*We suggest that a subsidiary listing of all investments owned by the City be prepared regularly and maintained on a monthly basis. The subsidiary listing should be compared to investments indicated on the monthly statements provided by the safekeeping institution. Furthermore, we suggest that investment reconciliations be prepared, reviewed and adjusting entries recorded in a timely manner.*

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*We suggest that records of offers received, the instruments chosen, and the rationale for making each decision be retained in individual working files for each purchase as indicated in the Investment Policy. We suggest that the desired file contents be decided upon and that each file be maintained in a consistent manner. Furthermore, we suggest that appropriate approval signatures and dates be documented in each file.*

*As mentioned above, in Section I, "Non-Compliance with the Investment Policy," we suggest that the Director of Financial Services review the current process and reconsider employee involvement in this area to determine if duties can be realigned and/or additional controls implemented. Each step of the process should be considered prior to documenting the acceptable departmental practices in writing.*

**Management Response:**

- A. Disagree: Initially, the City contemplated using the investment advisor's subsidiary listing to avoid internal preparation of redundant records. During the program implementation, it was learned that this information would not be available in time for weekly investment decisions and monthly reconciliations. The City developed its own subsidiary record for weekly investment activity that detailed investment type, maturity date, amount, institution and fund.

The reconciliation process involves a comparison of the individual investment files, custody bank statements and the general ledger. An investment file for each transaction includes all documents from the bid process through purchase evidenced by the institution's security purchase confirmation notice. The custody bank statements provide summary information, investment earnings, cost and market values, and a detail listing of each investment security. While the in-house subsidiary record lists the investments and facilitates the weekly investment process, it is viewed as a tool to assist in the reconciliation. The independence component of the reconciliation is addressed through comparison of the custody bank statement's itemized investments list to the security purchase confirmation notices, both of which agree to the general ledger. This step in the reconciliation process has been in place since the inception of the program and each month was reconciled to the general ledger. For FY 2005, the average number of monthly investments ranged from 7 to 15 depending on cash flow cycles.

*Auditor's Comment: The "record of weekly investment activity" referred to above is not a complete listing of all investments held at any given time. The current method requires each individual investment file to be reviewed any time information is needed. Best practices suggest that a complete listing be available to facilitate reconciliation and management decision making.*

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- B. Agree in part: It is acknowledged that reconciliations were not prepared and reviewed in a timely manner. Monthly bank statements are received at the end of the following month resulting in reconciliation preparation during the second month following the month of activity.

Currently, reconciliations and reviews are timely through September 2005 as of the end of November 2005. The custody bank began delivering monthly statements around the 5<sup>th</sup> of the next month in December 2005.

Regarding the FY 2006 activity, several processes affect the timeframe from when a transaction is prepared until it is posted to the general ledger. Journals are processed weekly for posting. That process was delayed during the time period noted due to fiscal year end closing, preparation of the annual audit, etc. Journals for FY 2006 investments have been prepared in a more timely manner.

- C. Disagree: All funds are invested on a daily basis, including an overnight repurchase agreement for checks disbursed, but not yet cleared (float). For the review period of October 2004 through April 2005, investments occurred in five of the six months.

For the FY 2005, investments through the new investment program occurred eight months of the twelve month period. Longer-term investments didn't occur during July through September 2004 as this was a time period of lower cash flow activity as well as staff being dedicated to annual audit work. Lower cash flows occur during the Summer and early Fall as the major source of revenues are taxes received in November during the second quarter. Also, longer-term investments did not occur in January 2005 as cash receipts funded cash disbursements per the cash flow projections and investment maturities schedule.

Overall in FY 2005 with the program implementation, there were \$51 million in investment purchases with thirty-eight transactions (exclusive of interest earnings transactions) involving seven institutions. Investment earnings for the operating funds totaled \$1.2 million and exceeded budget estimates by \$.4 million due to the investment program and increases in market rates. When comparing LGIP to longer-term investment interest rates, the 25 basis points (.25%) difference resulted in earnings opportunity costs of approximately \$3,800 for the three months noted above.

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In reviewing the Investment Policy prior to June 30, 2006, consideration will be given to making the Policy more flexible to address periods of low cash.

- D. Agree in part: For each investment, the “Request for Offers”, the “Record of Offers Received” and the “Record of Security Purchased” Forms along with the bid offers from the institutions, fax receipt notifications for the institutions and the investment advisor, and the security purchase confirmation notice are filed. The forms were provided by the investment advisor and did not include the signature lines. While the “Winning Offer” section of the “Record of Offers Received” Form was not completed in all instances for the selected sample, there were notations by City staff included on the bid offers and on two of the “Record of Offers Received”. These notations included “winning bid”, “selected”, reasons for excluding bids, and checkmarks, arrows, etc., noting selection and exclusion. Additionally, telephone records document the conversations between the advisor and two City employees for each investment decision. As the result of this review, the investment documentation now includes City staffs’ initials, and the date/time of the telephone conversation and investment advisor employee name. Also, the “Winning Offer” section of the form is completed.
- E. Disagree: Finance Department staff review of the selected sample did not yield these results for the trade tickets. With the implementation of the program, each investment institution was sent a letter from the City Accountant along with the Investment Policy. As bid offers were received and in the instances when the appropriate Bloomberg security instrument page was not submitted, City staff consulted with the investment advisor. Each institution was advised to submit the Bloomberg information as its bid offer or the bids would be excluded from consideration for security purchases. Subsequent to that communication, the appropriate documents were consistently submitted as offers. The investment advisor subscribes to the Bloomberg service and provides clarification to any investment offer presented to the City.

*Auditor’s Comment: The files in question were shown to the City Accountant and the Cash Accountant on August 30, 2005 during our exit conference with them. The explanation for the undocumented trade tickets provided by them is noted in our previous comment.*

- F. Disagree: The following information outlines the internal controls for the investment program. There are controls within the City’s operation and with functions performed by the investment advisor. Several people are involved in the investment process/review as noted in the list of internal

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controls below. The Finance Department staff consulted with the investment advisor and the external auditor for this activity and believes that the internal controls are sufficient.

- a. In the Quarterly Investment Review Report, the investment advisor includes an investment maturities schedule that guides the weekly investment offers and decisions. This schedule includes investment type, amount and maturity date.
- b. The investment advisor determines the investment firms and institutions with which the City staff will seek bid offers.
- c. The investment advisor is provided with general ledger cash accountability financial records that include all cash activity for each month including investment transactions. This serves as an internal control measure and enables them to perform their role with the investment program, prepare cash forecasts and the Quarterly Investment Review Report.
- d. The investment advisor is provided with a fax copy of each bid offer, which is discussed by telephone conversation with two City employees and the advisor for mutual agreement on the security purchase.
- e. The investment advisor receives a security purchase confirmation notice directly from the investment institution.
- f. The investment advisor receives monthly investment bank statements directly from the Local Government Investment Pool (LGIP) and the custody bank.
- g. All bank accounts, which include the general banking services account, other than LGIP and the custody bank are reconciled by a different employee and reviewed by a supervisor, both of which are not involved in any investment activity. The general banking services account reflects transfers of funds related to investment activity.
- h. All transfers of funds for the general banking services bank account are reviewed by another employee on a daily basis. This includes the review of documentation supporting the transfer of funds.
- i. The Financial Services Director authorizes the bank accounts to which funds transferred from the custody and LGIP bank accounts can be deposited. Funds from these accounts can only be transferred to the City's general banking services account or between the two investment bank accounts (LGIP and custody bank). The Financial Services Director also authorizes employees designated to transfer the funds.
- j. Journals to record all investment activity are reviewed and approved by an employee not involved in the investment activity. The data entry of these journals is performed by a different employee not involved in the investment activity.
- k. The Quarterly Investment Review Report prepared by the investment advisor is reviewed with City staff and delivered to the Investment Committee members. It reports investment activity for the quarter,

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compares actual activity to the target investment portfolio, provides cash forecasts for the upcoming year, and provides the investment maturities schedule for the upcoming year. During the Quarterly Investment Review Report meetings, discussions include enhancements to the program and resolution of any issues.

- l. The Investment Committee has begun periodic meetings related to the Investment Program. The first meeting was in May 2005 and included the investment advisor.
- m. Internal and external audit reviews are conducted annually.
- n. An investment process narrative was provided to the external auditor in the Summer of 2004 and updated in the Summer of 2005. All investment activity reviewed by the external auditor and all investment confirmations in the external audit process resulted in no variances or general ledger reconciliation differences.
- o. The City Accountant and General Ledger/Cash Management Accountant take annual leave throughout the year including one week intervals. The Financial Services Director and the Account Technician III position are responsible for performing those functions in a back-up capacity.

*Auditor's Comment: Internal Control cannot be achieved through an outside entity, such as an investment advisor. Additionally, although internal and external audits are performed and controls are reviewed, it is management's responsibility to ensure that adequate controls are in place.*

**III. Inefficient Practices**

- A. The Government Accounting Standards Board (GASB) issues statements which provide guidance for the proper recording of financial data for governments. GASB Statement 31 (GASBS 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, was issued in consideration of the financial accounting community's movement towards the valuation of investments at "fair value" in a government's accounting records. GASBS 31, paragraph 7, defines fair value as "the amount a seller would be paid for an investment if it were to be sold currently in a transaction between a willing buyer and a willing seller."

In an effort to comply with GASBS 31, Financial Services has elected to record Gains/Losses (changes in fair value) on investments in the general ledger on a monthly basis. However, in practice, this did not occur for most months during our review period. Additionally, some recorded monthly entries were incorrect and required additional effort to correct these entries as of FYE June 30, 2005.

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Most City investments are U.S. treasury bonds and U.S. government agency obligations which are purchased with a remaining maturity of less than one year. These investments are considered to be “money market investments”. Wiley GAAP for Governments, 2005, states that according to GASBS 31, “Money market investments that have a remaining maturity at the time of purchase of one year or less may be reported at amortized cost, provided that the fair value of the investment is not significantly affected by the impairment of the credit standing of the issuer or by other factors”. Amortized cost represents the actual purchase price of the investment (face value plus/minus the premium/discount). Additionally, the credit standing of the investment issuer (U.S. government) is not considered to be at risk.

*Suggestion:*

*We suggest that Financial Services consider the option allowed under GASBS 31 to record U.S. Treasury and agency obligations purchased with a remaining maturity of one year or less at amortized cost. This would permit the City to discontinue recording changes in fair value on a monthly basis for qualifying investments; and therefore, reduce work load. In the event the City elects to record these short term investments at amortized cost, according to GASBS 31, a financial statement disclosure is required which indicates “the policy for determining which investments, if any, are reported at amortized cost.”*

**Management Response:**

Disagree: With the program implementation, a decision was made to follow the GASB standards to report investments at fair value with market gains and losses recorded in the financial records. Separate accounts on the general ledger report these amounts resulting in more accurate financial records. The City’s target investment portfolio is twenty percent (20%) in commercial paper; and, discontinuing this approach would create inefficiencies with two accounting methods for the securities. In conversations with the external auditor, other governmental clients record market values in the same manner. With any new program and process, a part of the implementation includes a monitoring aspect of the program. There were a few instances as noted previously which required additional review and correcting journals related to the market gains and losses. Based on those corrections, journal entries were revised to improve the process going forward and prevent reoccurrence.

- B. State Street Bank & Trust, the City’s safekeeping institution, provides multiple monthly statements. Individual statements are provided for each fund as well as two combined statements. Each statement is distinguished by differing account numbers, such as, WSLY01, WSLY10, WSLY11,

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WSLY12, WSLY13 and WSLY14. When attempting to reconcile the various State Street statements, we noted a large unexplained difference in Cost Value (\$182,880.30) between the two combined June 30, 2005 statements, WSLY01 and WSLY10.

The General Ledger/Cash Accountant and the City Accountant were unable to explain the difference between the two statements. It was also stated the individual fund statements are inaccurate because of differing methods of segregating funds when an investment is made with cash from more than one fund.

Additionally, the General Ledger/Cash Accountant reconciles to the WSLY01 statement. However, there is no assurance this data is correct. As previously stated, the General Ledger/Cash Accountant does not prepare an independent listing (subsidiary) of investments owned by the City on a regular basis. Therefore, we are uncertain that the costs and values obtained from the State Street statements are accurate.

*Suggestion:*

*We suggest that the safekeeping institution explain the different statements and determine the cause of the large difference in Cost Value between the two combined statements, WSLY01 and WSLY10. Additionally, we suggest the usefulness of the State Street statements be reevaluated and a decision made regarding which statements should be received. Once the City's requirements are determined, State Street should be notified and unnecessary items discontinued.*

**Management Response:**

Agree: The custody bank is the largest provider of these investment services required by Virginia law. City staff reviewed all available statements, discussed these with the custody bank and selected several to implement the program. The initial set up of the accounts provided for lower account maintenance and included a comprehensive account (WSLY01); and, a combined account (WSLY10) with fund designated sub accounts. The official bank statement for the investments is the WSLY01 statement as verified in an October 10, 2005 letter from the custody bank. This has been the statement used to reconcile to the general ledger as it reports actual investment activity and itemizes each investment security. The remaining statements reporting the combined/sub account were not useful in the monthly reconciliation process. Based on Internal Audit's review of the statements, City staff contacted the custody bank to resolve the questions. As a result, revisions to the combined/sub account structure and related statements were implemented in October 2005. The WYSL01 statement is still the official statement for reconciliation purposes. Since the inception of the



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program, the FY 2004 and FY 2005 external audit investment confirmation procedure and the audit of the investment program have resulted in no variances in securities and general ledger balances. The custody bank statement WYSL01 is an accurate statement verified monthly to each investment purchase confirmation notice.

***Other Comments***

We appreciate the cooperation and assistance we received from the employees in Financial Services while conducting this review. We are available to discuss this report should there be any questions or concerns.

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Carol J. Bibb, Internal Audit Director

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